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7 BEFORE THE INSURANCE COMMISSIONER  
8 OF THE STATE OF WASHINGTON

9 In the Matter of the Application regarding the  
10 Conversion and Acquisition of Control of  
11 Premera Blue Cross and its Affiliates,

Docket No. G02-45

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13 **PREFILED TESTIMONY OF MICHELE BROWN**

- 14 1. My name is Michele Brown. I am President of the United Way of Anchorage, an  
15 Intervenor in this action. I have been the President and Chief Executive Officer  
16 of the United Way of Anchorage since May 2003. My job duties include policy  
17 and financial management of the organization with the specific goal of  
18 addressing major health and human services problems. Prior to joining the  
19 United Way of Anchorage, I served as the Commissioner of the Alaska  
20 Department of Environmental Conservation for seven years. I received my A.B.  
21 from the University of California Berkeley and my J.D. from the University of  
22 California Davis.  
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- 1                   2. The United Way of Anchorage works with 50 partner agencies in the United  
2                   Way of Anchorage Network of Care to strengthen, develop, and fund agencies,  
3                   coalitions, and programs that, among other things, promote wellness and self-  
4                   sufficiency, and support health initiatives on behalf of the residents of Alaska.  
5                   United Way of Anchorage also funds initiatives and programs for non-partner  
6                   agencies that relate to the healthcare delivery system in Anchorage.
- 7                   3. United Way of Anchorage also collects and disburses funds to Alaska agencies  
8                   and programs that provide direct and indirect healthcare related services to  
9                   Alaskans. In 2002, the United Way of Anchorage disbursed over \$2 million in  
10                  such funds.
- 11                 4. One of the United Way of Anchorage's missions is to act as a community builder,  
12                 bringing together people, expertise, and resources to focus on community  
13                 solutions. United Way of Anchorage currently acts as a convener and a fiduciary  
14                 agent for the Anchorage Access to Health Care Coalition, a community coalition  
15                 to provide primary and special care to low income families. The Coalition formed  
16                 after the Anchorage Healthy Future project determined in 1997 that one of its  
17                 objectives was to "ensure that each person in Anchorage has access to the ability  
18                 to pay for basic curative and preventive services." The coalition has focused on  
19                 the medically underserved who are primarily those without health insurance. At  
20                 least 26,000 Anchorage adults have no health plan. Among the uninsured in  
21                 Anchorage, 71% are employed but are either not offered health insurance or  
22                 cannot afford to pay his or her portion of the monthly premium for either  
23                 employer provided or private insurance. Research data indicates that people  
                    without insurance do not get preventive or curative medical attention until there is

1 a medical crisis. This problem will likely be exacerbated if the costs of health  
2 insurance increase.

3 5. A community assessment recently conducted by United Way of Anchorage and  
4 several other community partners revealed that affordable healthcare is a critical  
5 community concern and one of the top priorities for residents of Anchorage in all  
6 neighborhoods and across all demographics. In fact, in a household survey of 350  
7 Anchorage households, four of the top five ranked household challenges related to  
8 healthcare affordability and access. In accord with its mission, the United Way of  
9 Anchorage likely would seek to partner with the Alaska healthcare organization  
10 (that is expected to be created as a result of the conversion), to systematically  
11 address the gaps in Alaska's healthcare delivery system and develop ways to fill  
12 those gaps.

13 6. Premera has proposed that a charitable organization be established to receive the  
14 portion of its assets that accounts for its Alaska business. The United Way of  
15 Anchorage has worked collaboratively with many other community members  
16 concerned with health care issues in Alaska to establish a charitable organization  
17 that we believe will benefit Alaskans and serve to offset any negative impact that  
18 Premera's conversion to a for-profit status may have. Specifically, the United  
19 Way of Anchorage acted as a convenor of this community group. We believe that  
20 the proposed organization that we have helped developed is better suited to  
21 receive Premera's assets and will better serve the community for several reasons.  
22 The provision of health services in Anchorage is shared among government, the  
23 nonprofit sector, and the private sector. Each plays a critical and interconnected  
role. Maintaining the stability of that interconnected infrastructure requires

1 collaborative management of change in any of the sectors. Therefore, it is  
2 important that the Foundation be responsive to many interests and respect the  
3 diversity that the services infrastructure serves. It must be accountable to those  
4 constituencies while also looking at the bigger community wide issues. To do so,  
5 it needs to be perceived and in fact be independent from any particular interest  
6 such as government or Premera, and it must be responsive and accountable to the  
public.

- 7 7. Many of the United Way of Anchorage's partners will benefit from the creation of  
8 an independent healthcare charitable organization because they likely will be  
9 eligible to receive grants from this organization which, combined with the funds  
10 they receive from the United Way of Anchorage, will allow them to continue or  
11 improve their current level of healthcare related services. If these agencies receive  
12 funds from the Alaska charitable organization to support their healthcare related  
13 activities, more of the United Way of Anchorage's resources will be freed up,  
14 allowing it to focus on its other funding missions; such as working with healthcare  
providers on initiatives to provide access to adequate healthcare.
- 15 8. For a charitable organization to be most beneficial to Alaska it should be  
16 independent, fully funded, and accountable to the public it is dedicated to benefit.  
17 There are several structural and governance issues associated with Premera's  
18 proposed Alaska Health Foundation that lead me to believe that it will not be the  
19 most beneficial structure for Alaska. For instance, due to the many restrictions  
20 associated with the stock that the Alaska Health Foundation will receive, the  
21 Foundation will not be fully independent from Premera. In addition, the  
22 foundation lacks sufficient public accountability. For example, the Board of  
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1 Directors will initially be appointed by the Alaska Attorney General's office  
2 without any requirement that the Attorney General seek input from the  
3 community regarding qualified nominees for Board positions. Additionally, the  
4 Board of Directors is not required to seek input from the community, such as a  
5 community advisory group regarding future Board member selections or in the  
6 carrying out of the foundation's mission. Furthermore, the foundation is  
7 prohibited from amending its incorporation documents without approval from the  
8 Attorney General's office.

- 9 9. I understand that the Reden & Anders, Ltd and Signal Hill Capital consultants  
10 have determined that Alaska's share of Premera's non-profit assets is anywhere  
11 from 24% - 29.6%. (See Reden & Anders, Ltd., Report to the Insurance Director,  
12 Allocation of Premera Stock Value, dated February 23, 2004; Signal Hill Capital,  
13 Supplemental Report on Proposed Conversion of Premera Blue Cross, dated  
14 February 27, 2004). I also understand that the experts retained by the  
15 Washington Office of Insurance Commissioner disagree on how much Alaska  
16 should receive. I am not in a position to affix a specific number for Alaska's  
17 share, but I believe that Alaska should gets is fair share of these assets. If the full  
18 value of Premera's charitable assets that represent its business in Alaska is not  
19 realized for the benefit of Alaskan residents and Premera's rates increase or its  
20 coverage decreases, the value of the United Way of Anchorage's disbursement  
21 funds will be diminished. For example, if Premera's coverage decreases, the  
22 United Way of Anchorage's partner agencies likely will need more funds to  
23 continue the level of healthcare service they currently provide. As a result, the  
United Way of Anchorage likely will see an increase in the number of requests for

1 funds from these agencies (as well as other community members). If the United  
2 Way of Anchorage is tapped for more funds, it may be placed in the unfortunate  
3 position of having to decide whether to decrease funding from other critical areas  
4 to maintain the value of funding it provides for healthcare related activities.

- 5 10. United Way of Anchorage's interests are in ensuring health care provision to  
6 Anchorage residents. This encompasses access to services and insurance rates as  
7 they pertain to increasing or reducing the number of individuals who can receive  
8 medical care. Based upon those interests, United Way would take no position on  
9 the business aspects of the proposed conversion. However, if the conversion were  
10 to take place, the composition, mission, and independence of the Foundation and  
11 the allocation of proceeds to Alaska are critical factors in whether there are  
12 impacts to Alaskans and whether those impacts can be mitigated successfully. If  
13 Alaska does not receive its fair share of the proceeds, and if the Foundation is not  
14 properly established to mitigate potential impacts, then the conversion would not  
15 be in the best interests of Alaskans.

- 16 11. I may have additional comments as more information becomes available to me.

17 I declare under penalty of perjury of the laws of the State of Alaska that the foregoing is  
18 true and correct.

19 /s/

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Michele Brown